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NORTH CANADIAN

OILS LIMITED ☐ A NATURAL RESOURCE COMPANY



Twenty-Fifth Annual Report 1971

ANNUAL MEETING

The 1972 annual meeting of shareholders will be held Thursday, April 27th, 1972 at 1:30 p.m., Calgary Inn, Calgary, Alberta, Canada. A formal notice of this meeting, together with proxy statement and form of proxy, has been mailed with this report. All shareholders who are unable to attend the meeting are urged to sign and return their proxies as soon as possible.

DIRECTORS

PAUL H. AUSTIN

President,
Mercantile Bank of Canada,
Montreal, Quebec

C. M. HAMILTON

Consultant,
Calgary, Alberta

MARSHALL A. JACOBS

Lawyer
New York, New York

ROSS A. MacKIMMIE, Q.C.

Lawyer,
Calgary, Alberta

CLIVE H. REID

Calgary, Alberta

IVAN SUTHERLAND

Vice-President
North Western Pulp and Power
Hinton, Alberta

ROBERT F. RUBEN

Calgary, Alberta

OFFICERS

ROBERT F. RUBEN

President

JAMES W. DOWDEN

Vice-President, Exploration

NATHAN GOODMAN

Vice-President, Production

CLIVE H. REID

Secretary-Treasurer

KEY PERSONNEL

W. K. MILLER

Manager, Gas Transmission

B. L. COOK

Land Manager

W. E. MacDOUGALL

Chief Accountant

CANADIAN NORTH OILS LIMITED



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NORTH CANADIAN OILS LIMITED

Statement of Income for the six months ended June 30, 1971 (with comparative figures for 1970)

	1971	1970
Revenue		
Sale of gas and oil	\$2,055,000	\$1,783,000
Investment interest	512,000	496,000
Building rental and miscellaneous	59,000	72,000
	<u>2,626,000</u>	<u>2,351,000</u>
Expenses		
Operating and royalties	\$787,000	\$658,000
Administration and general	99,000	97,000
Interest	<u>233,000</u>	<u>215,000</u>
	1,119,000	970,000
Depreciation and depletion	1,507,000	1,381,000
Income before income taxes	310,000	275,000
	<u>1,197,000</u>	<u>1,106,000</u>
Provisions for income taxes		
Current	175,000	145,000
Deferred	<u>40,000</u>	<u>50,000</u>
	215,000	195,000
Net Income for Period	<u>\$ 982,000</u>	<u>\$ 911,000</u>
Per common share	16½¢	15¢

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The common shares of North Canadian Oils are exempt from the U.S. interest equalization tax. They are listed for trading on the American Pacific

To the Shareholders:

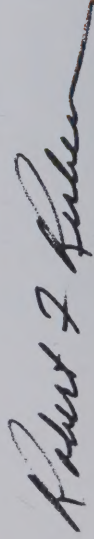
Bolstered by an 18% increase in natural gas sales, North Canadian's operations in the first six months of 1971 produced a record half year total revenue of \$2,626,000. Cash flow for the period was \$1,507,000, an increase of 9% over the \$1,381,000 cash flow reported a year earlier. Unaudited net income was \$982,000 or 16½¢ per common share. This compares to equivalent figures in 1970 of \$911,000 or 15¢ per common share.

In April, North Canadian reported participation in the discovery of a new Viking gas field at Corbett Creek, Alberta. Delayed by late spring rains, testing of the discovery and confirmation wells, located 2½ miles apart, has now been completed with indicated absolute open flows of 5.1 million cubic feet per day and 7.8 million cubic feet per day respectively. Also, two step-out wells have been drilled by the discovery group to determine the extent of the field limits and to earn additional lands. The first well, located 4½ miles southeast of the nearest producer, was abandoned when the producing sand was found to be water laden. The second well, located three miles northwest of the nearest producer and 10 miles from the first extension well, produced gas on drill stem test of the Viking sand at a rate of 1.5 million cubic feet per day and will be completed.

North Canadian has a 50% interest in the three successful wells until recovery of its portion of the drilling and completion costs, and a 25% interest thereafter. The Company also owns a 25% interest in the balance of the 30,000 acres of land held by the participating group in the immediate area. The drilling of at least two additional wells is planned in the development of the new field.

In June the Company undertook an 18-well development drilling program on its wholly owned gas producing properties in Saskatchewan and Alberta. This has now been completed, and it is expected that, following construction of extensions to the gathering systems, all of the wells will be on production by early fall.

Exploration of the extensive block of permits in the Northwest Territories in which North Canadian has a 25% interest has been suspended for the summer. The 8,500 foot test which was drilling at the time of our last interim report was unsuccessful and has been abandoned. Plans for the continued exploration of the 2.8 million acre permit area are now being drawn for the coming winter drilling season. Mobil Oil Canada is the designated operator.



President

August 11, 1971

Statement of Source and Use of Funds

for the six months ended June 30, 1971
(with comparative figures for 1970)

Source of funds	1971	1970
Operations		
Net income for the period . . .	\$ 982,000	\$ 911,000
Add: items not involving a current outlay of funds:		
Depreciation and depletion . .	310,000	275,000
Deferred income taxes	40,000	50,000
Funds provided from operations .	1,332,000	1,236,000
Reduction of other assets	85,000	27,000
	<u>\$1,417,000</u>	<u>\$1,263,000</u>
Use of funds		
Additions to property, plant and equipment	\$ 808,000	\$ 699,000
Additions to investment	8,000	—
Reduction of long term debt . . .	10,000	4,000
Redemption of preferred shares .	52,000	98,000
Preferred share dividend	63,000	66,000
	<u>941,000</u>	<u>867,000</u>
Increase in working capital . . .	476,000	396,000
Working capital at January 1 . . .	683,000	877,000
Working capital at June 30	<u>\$1,159,000</u>	<u>\$1,273,000</u>

SEE OVER FOR STATEMENT OF INCOME

25

North Canadian has completed the first 25 years of its history with a highly successful silver jubilee year. All phases of the Company's operation have shown sound growth, giving the Company a solid platform from which to venture toward its future objectives.

The Company has developed a base of natural gas reserves and investments which will provide substantial cash flow for years to come.

On this foundation North Canadian is looking to the frontier areas of the Canadian North and some of the more interesting off-shore plays as major objectives for the seventies and the foreseeable future.

THE YEAR AT A GLANCE

(with comparative figures for 1970)

	1971	1970	Change
Financial			
Total Income (Before Royalty)	\$ 5,116,029	\$ 4,619,005	+ 10.7%
Cash Flow (after cost of product, operating, administrative and interest expenses)	2,938,760	2,583,933	+ 13.7%
Per Share	52¢	46¢	
Net Income	1,825,001	1,447,549	+ 26%
Per Share (after provision for preferred share dividend)	30¢	24¢	
Operating and Administrative Expense	1,474,192	1,404,699	+ 4.8%
Expenditures for:			
Exploration	1,305,385	313,679	+ 316%
Development	600,745	1,243,793	- 52%
Shareholder Equity - December 31st	21,222,007	19,540,807	+ 8.5%

Production and Sales

Natural Gas Sales

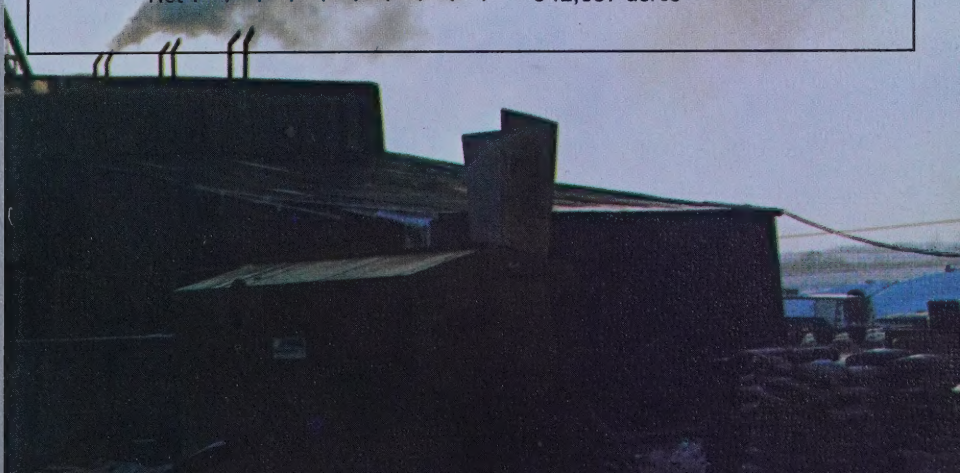
Production - billion cubic feet	14.5	11.9	+ 22%
Pipeline - billion cubic feet	4.6	4.4	+ 5.2%
Total sales - billion cubic feet	19.1	16.3	+ 17%
Average sales per day - million cubic feet	52.4	44.7	
Oil Production - barrels	58,540	54,920	+ 6.6%

Estimated Remaining Gross Recoverable Reserves - 31 December 1971

Gas	447 billion cubic feet
Oil	703,000 barrels

Land Holdings - 31 December 1971

Gross	3,124,842 acres
Net	942,157 acres





TO THE SHAREHOLDERS:

North Canadian Oils marked its 25th anniversary year as a public company with record achievements in production, revenue, and earnings. Improvement over the previous year was achieved in every phase of the Company's operations. Natural gas production rose 22%, oil production 6.6% and pipeline gas sales gained 5.2%.

Gross income in 1971 surpassed \$5 million for the first time. Cash flow was 52¢ per share, an increase of 13%. Net income was 30¢ per share, an increase of 25%.

Drilling activity in 1971 was up sharply. North Canadian drilled or participated in the drilling of a total of 44 wells. Of these, 24 were completed as gas wells, eight are awaiting completion as gas wells, and 12 were abandoned. Highlight of the program was the discovery of a new Viking gas field at Corbett Creek, Alberta in which the Company holds a substantial interest.

In conjunction with its exploration activity, North Canadian continued to add to its holdings of undeveloped acreage in Alberta and British Columbia. Despite the diversion of much attention to the frontier areas, Western Canada remains an excellent prospective area for the discovery of hydrocarbons and one in which North Canadian will continue to devote an appreciable portion of its exploration effort.

A most significant development for North Canadian was the completion of an agreement providing for a farm-out of its extensive land holdings in the Northwest Territories. Under the terms of this agreement, a group of companies headed by CanDel Oil Ltd. is committed to a major exploration program covering 2.3 million acres in the Mackenzie River Basin in which North Canadian owns a 25% undivided interest. This program will be carried out at no expense to North Canadian or its partners.

An agreement with Murphy Oil Company Ltd. will provide North Canadian with a promising new venture during

the coming year. Under a provincial government permit held by Murphy, the two companies are to jointly explore the feasibility of establishing large underground liquefied petroleum gas (LPG) storage facilities in the salt beds of Cape Breton Island, Nova Scotia.

During the past year the Company has actively sought to establish a position in several of the active off-shore exploration areas of the world which are currently the centre of considerable industry and investor attention. In the belief that it is desirable for North Canadian to have representation in one or more of these areas, a continued effort will be made in this direction, part of which will be channelled through Ocean Resources Limited, a subsidiary company formed jointly with Asamera Oil Corporation in 1970 as a vehicle for seeking foreign concessions.

Plans for 1972 include a comprehensive review of North Canadian's program for the next several years. Confronted with sharply increased competition in its search for new reserves of oil and gas, it is imperative that the Company employ its resources where they will return the greatest possible benefit. Every avenue by which North Canadian might strengthen its competitive position will be explored, and those offering the best prospect of success will be vigorously pursued.

Your management and directors acknowledge with thanks the dedicated and efficient manner in which the Company's employees carried out their responsibilities during the past year.

We look to the next 25 years with enthusiasm.



Respectfully submitted on
behalf of the Board of Directors.

A handwritten signature in dark ink, reading "Robert F. Ruben". The signature is written in a cursive, flowing style.

ROBERT F. RUBEN
President

March 10, 1972

EXPLORATION

North Canadian drilled or participated in the drilling of a total of 15 exploratory wells in 1971. Exploration activity was centred principally in the Province of Alberta where the Company participated in 11 wildcats. These resulted in three gas wells and eight abandonments. However, two of the abandoned wells were sufficiently encouraging that the Company added to its lease holdings in their vicinity. One of the prospects has been farmed out for a second well to be drilled at an early date. The Company joined in drilling one well in British Columbia and one in Saskatchewan both of which were abandoned. In addition, two unsuccessful wells were drilled by North Canadian and its partners on the Company's holdings in the Mackenzie River Basin of the Northwest Territories.

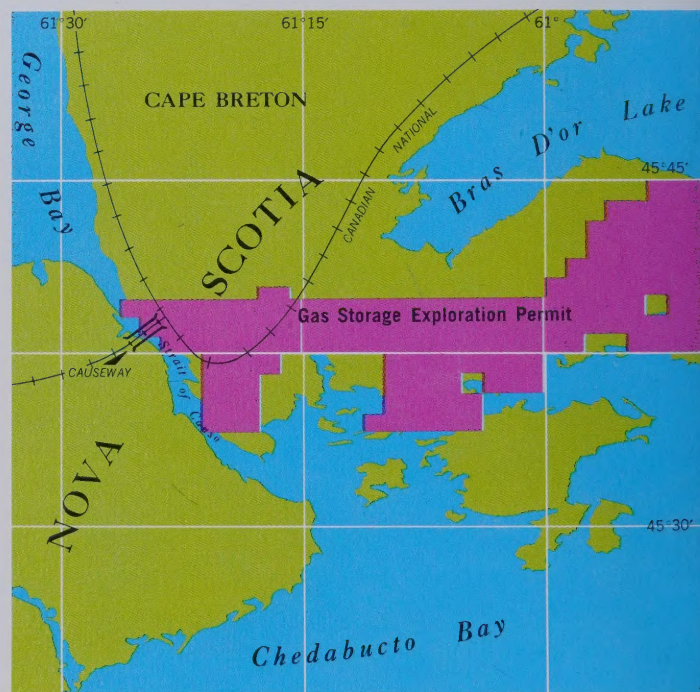
Of particular significance was North Canadian's participation in the discovery of a commercial gas field located at Corbett Creek, Alberta. The 32,000 acre block held by the discovery group lies immediately adjacent to the Alberta Gas Trunk Line system assuring immediate access to market for gas. North Canadian will have an interest of approximately 42% in the field's initial production and will be the field operator. Production is scheduled to start on the first of April of this year. It is estimated that the Corbett Creek discovery will add over 20 billion cubic feet to North Canadian's recoverable gas reserves.

During the year the Company either earned by drilling or acquired by purchase varying interests in 70,000 acres of leases in selected areas of Alberta and British Columbia. The addition of these lands less those which are now being developed increases the Company's undeveloped lease holdings in the provinces to 82,000 gross or 36,000 net acres. Additional acreage acquisitions in the western provinces are contemplated as the Company's geological staff develops regional projects on which it is now working.

In the Northwest Territories North Canadian has entered an agreement with the Northwest Exploration Project Group, a partnership of Canadian and American com-

panies, whereby they are to carry out an extensive exploration program on a block of 2.3 million acres in which North Canadian owns a 25% undivided interest. The minimum program agreed upon requires an estimated expenditure of \$400,000 for seismic exploration plus the drilling of two wells into the pre-Cambrian basement, all at no cost to North Canadian or its partners. The Northwest Exploration Project Group will earn a part interest in pre-selected lands for each well drilled. They will have progressive options to drill up to an additional eight exploratory wells which would earn them an interest in the full block.

Not committed to the foregoing agreement is a separate 343,000 acre block of permits in the Northwest Territories in which North Canadian also owns a 25% interest.



NOVA SCOTIA — Area of investigation for salt beds suitable for LPG storage facilities.

In Nova Scotia, North Canadian has taken an option from Murphy Oil Company Ltd. to earn a one-half undivided interest in permits to explore for salt beds suitable for the development of underground caverns for the storage of liquefied petroleum gas (LPG). The growing energy crisis in the eastern United States has prompted the investigation of potential underground storage areas as a means to store large tanker shipments of LPG's for transshipping to market during peak demand. Such facilities would reduce the anticipated need for large and costly surface storage facilities in metropolitan areas. Initial exploration will commence at an early date on Cape Breton Island near existing deep water ice-free port facilities in the Strait of Canso.

DEVELOPMENT

Twenty-nine development wells were drilled by North Canadian in 1971. Of these, nineteen were drilled on the Company's producing lands in Saskatchewan and 10 in Alberta, 3 of which were in the new Corbett Creek Field. All were successful.

North Canadian owns and operates 224 producing gas wells, 235 miles of gathering lines and four compressor stations. An additional 67 proven locations are available for future drilling.

NATURAL GAS SALES

North Canadian's gas sales, pipeline and production, averaged 52.4 million cubic feet a day in 1971. Total volume for the year was 19.1 billion cubic feet.

Production

Company-owned production for the year was 14.5 billion cubic feet, an increase of 22%. Deliveries to the Saskatchewan Power Corporation and TransCanada Pipe-

Lines averaged a total of 39.7 million cubic feet a day compared to an average of 32.6 million cubic feet a day in 1970.

As of January 1, 1972 the Company's remaining recoverable gas reserves are estimated to be 447 billion cubic feet (gross).

Pipeline

A major asset of the Company is the 136-mile natural gas pipeline which it operates between Wabamun and Hinton, Alberta. In 1971 revenue from the line accounted for approximately 33% of North Canadian's total income.

The principal customer of the line is North Western Pulp & Power Ltd. with whom North Canadian holds a long term gas supply contract. In addition, the line sells to several smaller industrial users and the utility companies serving the numerous towns and villages within economic reach of its route. Total sales in 1971 were 4.6 billion cubic feet, an increase of 5.4% over the previous year.

Gas for the line is purchased by North Canadian from several alternative sources. There is no foreseeable problem of gas supply.

OIL PRODUCTION

North Canadian's net oil production in 1971 averaged 160 barrels a day for an increase in volume of 6.5%. Revenue from oil production, however, increased by 23% due to a higher posted field price for crude oil. All of the Company's production is from Joarcam Field of Alberta. North Canadian's portion of the field's remaining recoverable reserves is estimated to be 703,000 barrels.

FINANCIAL

Income

Gross income for the year before payment of royalties was \$5,116,029, an increase of \$497,024 over 1970. Approximately 44% of the total was revenue from gas and oil production, 33% was contributed by pipeline sales, and 20% was interest received from investments. The gain was principally attributable to a substantial increase in gas production.

Expenses

Operating, administrative and general expenses for the year totalled \$1,474,192 compared to \$1,404,699 in 1970, an increase of \$69,493 or 4.8%. Interest on long term debt declined by \$6,889. Because of higher production, royalty payments increased by \$79,593.

Cash Flow

Cash flow after the payment of direct expenses and royalty was \$2,938,760. The equivalent figure in 1970 was \$2,583,933. This figure represents the funds available to the Company for exploration and development, retirement of debt, and payment of preferred share dividends and income tax. It is reported as a pre-tax figure for the reason that funds available and spent for exploration and development materially reduce income tax liability.

Expenditure for Exploration and Development

Exploration expenditures in 1971 totalled \$1,305,385, a substantial increase over the \$313,679 spent for exploration in 1970. Expenditures for development of proven acreage were reduced from \$1,243,793 in 1970 to \$600,745 in 1971.

Net Income

The Company's net income for the year was \$1,825,001 or 30¢ per common share versus \$1,447,549 or 24¢ per common share the previous year.

Balance Sheet

There was a modest increase in the Company's year end net working capital position which stood at \$717,401.

Long term debt at December 31st, 1971 was \$6,680,730, a reduction of \$468,289 from December 31, 1970.

Stock options covering a total of 15,832 shares were exercised by the Company's employees in 1971. The total number of common shares now outstanding is 5,602,497.

In 1971, 2,170 preferred shares were redeemed through purchase on the open market leaving 44,352 preferred shares outstanding at the year end. An additional 705 preferred shares have since been redeemed.



Gas metering station for North Western Pulp and Power at Hinton terminus of Wabamun-Hinton pipeline.

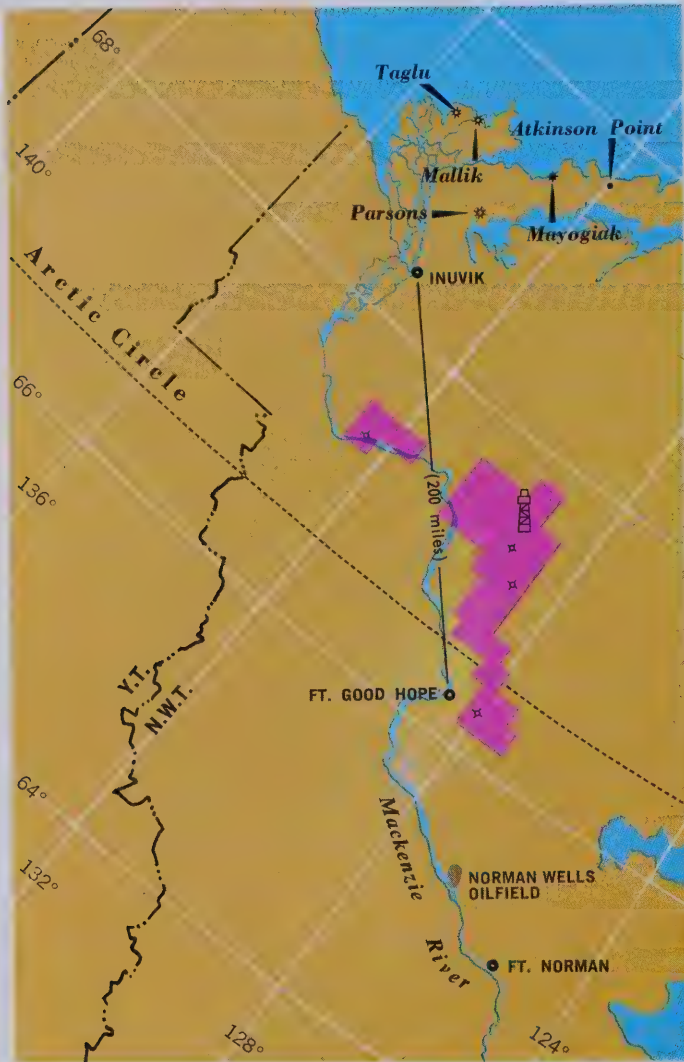
SIX YEAR REVIEW

	<u>1971</u>	<u>1970</u>	<u>1969</u>	<u>1968</u>	<u>1967</u>	<u>1966</u>
Financial						
Revenue						
Sale of gas and oil	\$ 3,945,434	\$ 3,443,992	\$ 3,162,127	\$ 2,766,602	\$ 2,458,992	\$ 2,432,120
Less royalties	257,540	177,947	129,403	83,908	62,366	56,850
	<u>3,687,894</u>	<u>3,266,045</u>	<u>3,032,724</u>	<u>2,682,694</u>	<u>2,396,626</u>	<u>2,375,270</u>
Interest income	1,020,992	1,011,987	920,020	35,910	56,766	53,758
Building, rental and miscellaneous	149,603	163,026	101,515	110,784	90,197	85,926
	<u>4,858,489</u>	<u>4,441,058</u>	<u>4,054,259</u>	<u>2,829,388</u>	<u>2,543,589</u>	<u>2,514,954</u>
Expenses						
Operating and Administrative expense	1,474,192	1,404,699	1,374,081	1,198,724	1,021,262	1,028,165
Interest expense	445,537	452,426	364,677	380,092	391,454	397,767
	<u>1,919,729</u>	<u>1,857,125</u>	<u>1,738,758</u>	<u>1,578,816</u>	<u>1,412,716</u>	<u>1,425,932</u>
Cash generated by operations	<u>2,938,760</u>	<u>2,583,933</u>	<u>2,315,501</u>	<u>1,250,572</u>	<u>1,130,873</u>	<u>1,089,022</u>
Per common share	52¢	46¢	42¢	22¢	20¢	20¢
Depreciation and Depletion	674,025	591,670	538,517	498,122	440,981	419,885
Unproductive Development and Abandoned Leases	80,284	10,324	—	17,826	82,992	121,655
	<u>754,309</u>	<u>601,994</u>	<u>538,517</u>	<u>515,948</u>	<u>523,973</u>	<u>541,540</u>
Income before Income Taxes and Extraordinary items	<u>2,184,451</u>	<u>1,981,939</u>	<u>1,776,984</u>	<u>734,624</u>	<u>606,900</u>	<u>547,482</u>
Income Taxes						
Current	320,450	452,390	185,000	29,779	—	30,391
Deferred	39,000	82,000	90,000	50,000	70,000	70,000
	<u>359,450</u>	<u>534,390</u>	<u>275,000</u>	<u>79,779</u>	<u>70,000</u>	<u>100,391</u>
Net Income before extraordinary items	<u>\$ 1,825,001</u>	<u>\$ 1,447,549</u>	<u>\$ 1,501,984</u>	<u>\$ 654,845</u>	<u>\$ 536,900</u>	<u>\$ 447,091</u>
Per Common Share	30¢	24¢	24¢	09¢	07¢	06¢
Extraordinary items - Gain (Loss)	—	—	*8,471,758	(14,390)	—	—
Per Share	—	—	1.52¢	—	—	—
Net Income	<u><u>\$ 1,825,001</u></u>	<u><u>\$ 1,447,549</u></u>	<u><u>\$ 9,973,742</u></u>	<u><u>\$ 640,455</u></u>	<u><u>\$ 536,900</u></u>	<u><u>\$ 447,091</u></u>
Per Common Share	30¢	24¢	1.76¢	09¢	07¢	06¢
Working Capital	\$ 717,401	\$ 683,614	\$ 877,709	\$ 275,289	\$ 777,703	\$ 1,100,447
Investments	16,035,875	16,021,375	15,000,000	6,390,000	6,390,000	6,390,000
Property and Equipment - Net	11,722,935	10,520,688	9,507,595	8,081,230	7,580,650	6,976,598
Long Term Debt	6,680,730	7,149,019	6,610,431	6,079,656	6,469,975	6,935,725
Shares Outstanding						
Common - par value 25¢ per share	5,602,497	5,586,665	5,586,665	5,586,665	5,561,390	5,474,965
Preferred - par value \$50 per share	44,352	46,522	49,101	49,801	51,916	52,471
Shareholders' Equity	<u>\$21,222,007</u>	<u>\$19,540,807</u>	<u>\$18,351,973</u>	<u>\$17,029,064</u>	<u>\$16,580,595</u>	<u>\$15,848,278</u>
Cost of Finding & Developing Reserves						
Exploration	1,305,385	313,679	290,586	64,854	49,424	76,398
Development	600,745	1,243,793	1,733,963	953,514	1,138,392	703,548

* Gain on sale of investment in North Western Pulp & Power Ltd.

Production and Sales

Natural Gas Sales						
Production - billion cubic feet	14.5	11.9	9.8	6.7	5.6	5.2
Pipeline - billion cubic feet	4.6	4.4	4.6	4.3	3.9	4.1
Total Sales - billion cubic feet	19.1	16.3	14.4	11.0	9.5	9.3
Average per day - million cubic feet	52.4	44.7	39.5	30.1	26.0	25.5
Oil Production - barrels	58,540	54,929	54,154	71,632	66,229	50,418



NORTHWEST TERRITORIES – North Canadian Acreage



ALBERTA – Corbett Creek Gas Field

N. W. T.

ALBERTA

Lake Athabasca

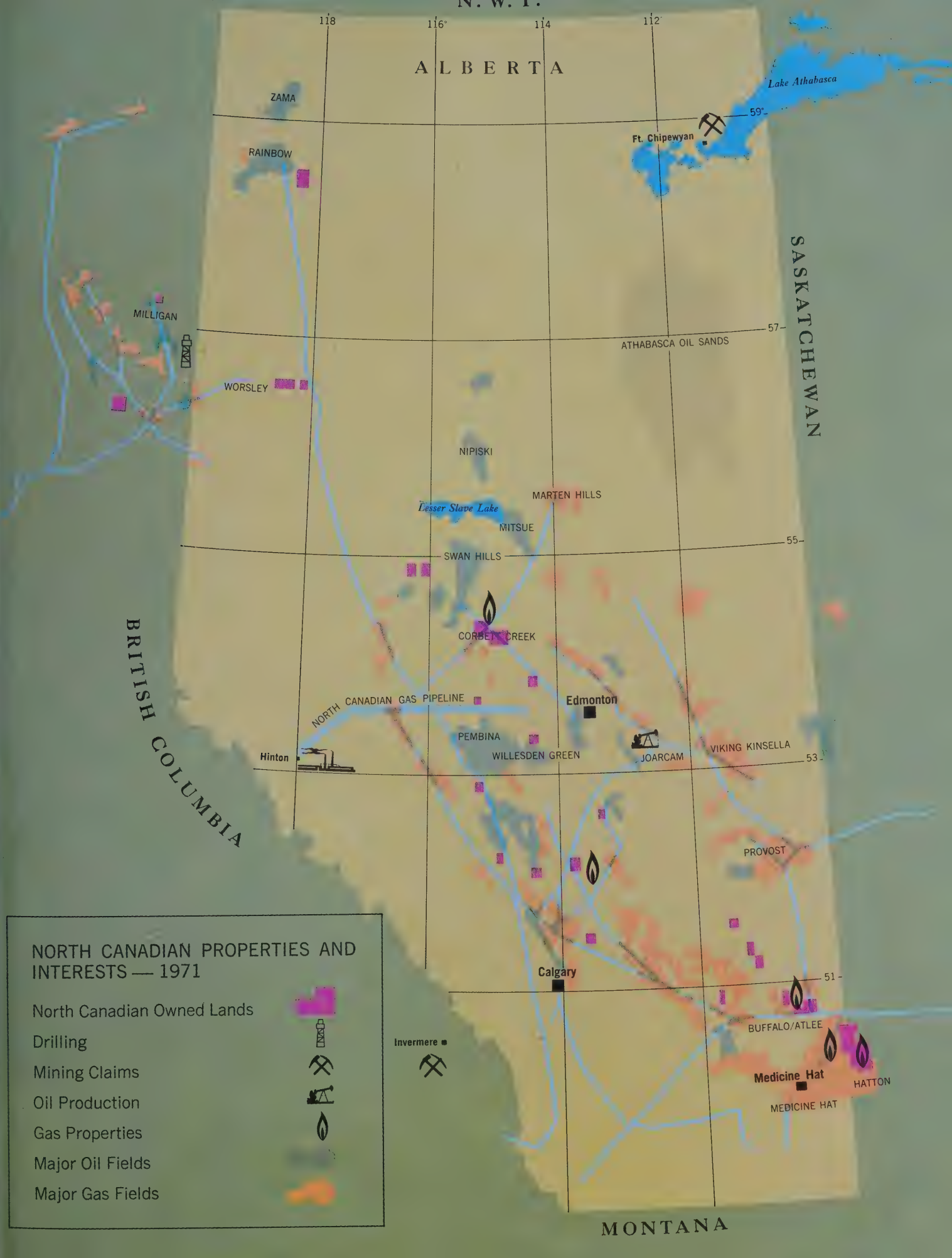
SASKATCHEWAN

BRITISH COLUMBIA

MONTANA

NORTH CANADIAN PROPERTIES AND INTERESTS — 1971

- North Canadian Owned Lands
- Drilling
- Mining Claims
- Oil Production
- Gas Properties
- Major Oil Fields
- Major Gas Fields





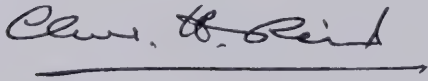
NORTH CANADIAN OILS LIMITED

BALANCE SHEET

DECEMBER 31, 1971

(with comparative figures for 1970)

ASSETS

	<u>1971</u>	<u>1970</u>
Current assets:		
Cash	\$ 446,868	\$ 152,055
Deposit receipts	400,000	700,000
Accrued interest receivable	494,159	416,378
Accounts receivable	601,917	454,604
Inventory of pipe, at cost	22,534	6,198
Prepaid expenses	23,320	30,263
Total current assets	<u>1,988,798</u>	<u>1,759,498</u>
6% St. Regis Paper Company notes receivable, due January 1, 1984 (no quoted market value) (Note 2)	<u>15,000,000</u>	<u>15,000,000</u>
Investment in and advances to a non-controlled company, at cost (Note 3)	<u>1,035,875</u>	<u>1,021,375</u>
Property, plant and equipment (Notes 1 and 4):		
At cost	17,601,006	15,733,500
Accumulated depreciation and depletion	5,878,071	5,212,812
	<u>11,722,935</u>	<u>10,520,688</u>
Other assets, at cost	<u>137,526</u>	<u>136,149</u>
On behalf of the Board:		
 , Director		
 , Director	<u>\$29,885,134</u>	<u>\$28,437,710</u>

See accompanying notes to financial statements.

LIABILITIES

	<u>1971</u>	<u>1970</u>
Current liabilities:		
Accounts payable and accrued liabilities	\$ 692,693	\$ 340,444
Income taxes payable	125,750	280,800
Long-term debt due within one year	452,954	454,640
Total current liabilities	<u>1,271,397</u>	<u>1,075,884</u>
Long-term debt (Note 5)	6,680,730	7,149,019
Deferred income taxes (Note 7)	<u>711,000</u>	<u>672,000</u>
Shareholders' equity:		
Capital stock (Note 6):		
5½% Cumulative redeemable preferred shares, par value \$50 each; authorized 70,000 shares, issued 44,352 shares (1970 - 46,522 shares)	2,217,600	2,326,100
Common shares, par value \$.25 each; authorized 7,500,000 shares, issued 5,602,497 shares (1970 - 5,586,665 shares)	<u>1,400,624</u>	<u>1,396,666</u>
	3,618,224	3,722,766
Capital redemption reserve fund	1,282,400	1,173,900
Contributed surplus (Note 6)	1,750,761	1,665,201
Retained earnings	<u>14,570,622</u>	<u>12,978,940</u>
	<u>21,222,007</u>	<u>19,540,807</u>
Commitment (Note 3)		
	<u><u>\$29,885,134</u></u>	<u><u>\$28,437,710</u></u>

See accompanying notes to financial statements.



NORTH CANADIAN OILS LIMITED

STATEMENT OF INCOME

YEAR ENDED DECEMBER 31, 1971

(with comparative figures for 1970)

	<u>1971</u>	<u>1970</u>
Revenue:		
Gross operating revenues	\$ 3,945,434	\$ 3,443,992
Less royalties	257,540	177,947
	<u>3,687,894</u>	<u>3,266,045</u>
Interest income	1,020,992	1,011,987
Building revenue and miscellaneous income	134,684	137,278
Gain on foreign exchange	14,919	25,748
	<u>4,858,489</u>	<u>4,441,058</u>
Expenses:		
Operating	1,289,099	1,207,194
Administrative (Note 8)	185,093	197,505
Interest on long-term debt	445,537	452,426
Dry holes and abandonments	80,284	10,324
Depreciation	403,002	369,993
Depletion	271,023	221,677
	<u>2,674,038</u>	<u>2,459,119</u>
Income before income taxes	<u>2,184,451</u>	<u>1,981,939</u>
Income taxes (Note 7):		
Current	320,450	452,390
Deferred	39,000	82,000
	<u>359,450</u>	<u>534,390</u>
Net income	<u>\$ 1,825,001</u>	<u>\$ 1,447,549</u>
Net income per common share (after preferred dividends)	<u>\$.30</u>	<u>\$.24</u>

See accompanying notes to financial statements.



NORTH CANADIAN OILS LIMITED

STATEMENT OF RETAINED EARNINGS

YEAR ENDED DECEMBER 31, 1971

(with comparative figures for 1970)

	<u>1971</u>	<u>1970</u>
Balance, beginning of year	\$12,978,940	\$11,790,106
Add net income for the year	1,825,001	1,447,549
	<u>14,803,941</u>	<u>13,237,655</u>
Deduct:		
Dividends on preferred shares	124,819	129,765
Transfer to capital redemption reserve fund	108,500	128,950
	<u>233,319</u>	<u>258,715</u>
Balance, end of year	<u>\$14,570,622</u>	<u>\$12,978,940</u>

STATEMENT OF CAPITAL REDEMPTION RESERVE FUND

YEAR ENDED DECEMBER 31, 1971

(with comparative figures for 1970)

	<u>1971</u>	<u>1970</u>
Balance, beginning of year	\$ 1,173,900	\$ 1,044,950
Transfer from retained earnings	108,500	128,950
Balance, end of year	<u>\$ 1,282,400</u>	<u>\$ 1,173,900</u>

See accompanying notes to financial statements.



NORTH CANADIAN OILS LIMITED

STATEMENT OF SOURCE AND USE OF FUNDS

YEAR ENDED DECEMBER 31, 1971

(with comparative figures for 1970)

	<u>1971</u>	<u>1970</u>
Source of funds:		
Net income	\$ 1,825,001	\$ 1,447,549
Add non-cash items included in net income:		
Depreciation and depletion	674,025	591,670
Deferred income taxes	39,000	82,000
Dry holes and abandonments	80,284	10,324
Funds provided from operations	2,618,310	2,131,543
Bank loan	—	1,000,000
Sale of fixed assets	5,372	2,566
Reduction of other assets	—	30,951
Proceeds on issue of common shares	89,518	—
Total funds provided	<u>2,713,200</u>	<u>3,165,060</u>
Use of funds:		
Expenditures for property, plant and equipment	1,961,928	1,617,653
Investment in and advances to a non-controlled company	14,500	1,021,375
Increase in other assets	1,377	—
Reduction of long-term debt	468,289	461,412
Dividends on preferred shares	124,819	129,765
Redemption of preferred shares	108,500	128,950
Total funds used	<u>2,679,413</u>	<u>3,359,155</u>
Increase (decrease) in working capital	33,787	(194,095)
Working capital, beginning of year	683,614	877,709
Working capital, end of year	<u>\$ 717,401</u>	<u>\$ 683,614</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1971

1. ACCOUNTING PRINCIPLES:

The Company follows the practice of capitalizing all leasehold acquisition, exploration and development costs and lease rentals on undeveloped properties. Costs pertaining to areas which are not productive or contiguous to productive areas are written off against income.

Natural gas producing properties and related development costs, together with the cost of the pipeline and gas gathering system, are written off on a straight line basis over the life of existing gas contracts. The costs of successful petroleum producing properties and development, other than equipment costs, are written off by depletion charges on the unit of production method. Equipment costs and the office building are depreciated over the estimated useful lives of the assets.

2. 6% ST. REGIS PAPER COMPANY NOTES RECEIVABLE:

The notes may be converted into St. Regis common stock at \$55 (U.S.) per share on or before January 2, 1974 and at \$57 (U.S.) per share until January 2, 1976. The quoted market value of St. Regis common shares was approximately \$36 (U.S.) at December 31, 1971 (1970 - \$40 U.S.).

3. INVESTMENT IN AND ADVANCES TO A NON-CONTROLLED COMPANY:

Pursuant to an agreement, North Canadian Oils Limited joined with others in the formation of a company for the purpose of participating in offshore exploration ventures. North Canadian Oils Limited is obligated, under the terms of the agreement, to:

- (a) subscribe and pay for, when called, up to 40,000 shares at \$1 per share of the company so formed, and
- (b) advance \$1,000,000 (U.S.) to the said company.

As at December 31, 1971, the Company had purchased 20,000 shares for an aggregate consideration of \$20,000 and advanced \$1,000,000 (U.S.), which amount is carried in the accompanying balance sheet at the equivalent rate of exchange in effect at the time of the advances.

4. PROPERTY, PLANT AND EQUIPMENT:

	1971		1970	
	Cost	Accumulated Depreciation and Depletion	Cost	Accumulated Depreciation and Depletion
Developed oil and gas rights	\$ 6,154,713	\$1,622,304	\$ 5,458,444	\$1,351,282
Undeveloped oil and gas rights	1,851,109	—	928,794	—
Lease and well equipment and related facilities	378,303	313,189	347,495	296,892
Pipelines and gathering systems	8,335,362	3,581,125	8,119,554	3,219,936
Undeveloped mining claims	122,815	—	120,509	—
Land	78,983	—	78,983	—
Office building	679,721	361,453	679,721	344,702
	<u>\$17,601,006</u>	<u>\$5,878,071</u>	<u>\$15,733,500</u>	<u>\$5,212,812</u>

5. LONG-TERM DEBT:

	1971		1970	
	Due Within One Year	Long-Term Portion	Due Within One Year	Long-Term Portion
6% Series A Secured Notes maturing October 1, 1979	\$225,000	\$2,305,000	\$225,000	\$2,530,000
5½% Series B Secured Notes (\$2,335,000 U.S., 1970 - \$2,542,500 U.S.) maturing October 1, 1979	207,954	2,284,555	209,640	2,507,493
6% Mortgage, repayable in quarterly installments of \$5,000 plus interest, maturing March 1, 1977	20,000	85,000	20,000	105,000
Bank loan	—	2,000,000	—	2,000,000
5½% Mortgage, due March 5, 1982	—	6,175	—	6,526
	<u>\$452,954</u>	<u>\$6,680,730</u>	<u>\$454,640</u>	<u>\$7,149,019</u>

The bank loan is secured by \$3,000,000 of 6% St. Regis Paper Company convertible notes, due January 1, 1984. Although the loan is subject to call on demand, the agreement requires repayment in June, 1973. The 6% mortgage is secured by the office building.

The Series A and B Notes are secured by a first mortgage on the Company's gas pipeline, its interest in certain gas fields and the related gas purchase and sales contracts.

Sinking fund instalments are required on October 1 of each of the following years:

	Series A (Canadian)	Series B (U.S.)
1972 to 1974 (inclusive)	\$225,000	\$207,500
1975 to 1978 (inclusive)	250,000	230,000
Balance in 1979	855,000	792,500

These notes may be redeemed prior to maturity at a premium of 3.5% (Canadian) and 3.2% (U.S.) until October 1, 1972. The premium then decreases .5 of 1% per year on Series A Notes and .46 of 1% on Series B Notes with no premium on redemptions made after October 1, 1978.

The current portion of the Series B Notes represents the Canadian dollar equivalent payable within one year. The long-term portion represents the Canadian dollar equivalent of United States dollars on the date of receipt.

6. CAPITAL STOCK AND STOCK OPTIONS:

Under the terms of issue of its preferred shares, the Company is required to purchase for cancellation 2,000 preferred shares in each year. The shares may be redeemed from the holders on 30 days notice at a premium of 1.75% of par value (reducing .25 of 1% per year to June 1, 1975) or purchased on the market. At December 31, 1971, requirements to June 1, 1971 had been met and in addition, 1,648 shares applicable to June 1, 1972 had been cancelled (2,170 shares were purchased and cancelled in 1971).

During the year the Company issued 15,832 common shares for a total consideration of \$89,518 under the employees' stock option plan. Of the \$89,518, \$3,958 was credited to capital stock and \$85,560 was credited to contributed surplus.

Payment for the shares issued under the stock options was accepted by the Company in the form of notes receivable. The notes which are secured by the purchased shares are non-interest bearing until they mature at

which time they bear interest at 8%. They become due at the earlier of the date of voluntary termination of employment of the optionee, the date of sale of the purchased shares or ten years from the subscription date. The balance of the notes receivable is carried on the balance sheet under other assets.

At December 31, 1971 there remained outstanding options to purchase 26,668 shares and 5,000 shares of common stock at \$5.61 and \$5.89 per share respectively. The options become exercisable in equal annual amounts on April 30, 1972, 1973 and lapse on April 30, 1975. At December 31, 1971 there were 27,500 common shares reserved for future options under the plan.

7. INCOME TAXES:

For income tax purposes the Company is entitled to claim drilling, exploration and lease acquisition costs and capital cost allowances in amounts which may exceed the related expenses reflected in its accounts.

Management does not believe that it is appropriate to provide for income taxes deferred as a result of claims for drilling, exploration and lease acquisition costs. While the view of management conforms with general practice in the oil and gas industry and is accepted by accounting authorities outside Canada, it differs from the tax allocation basis of accounting recommended by the Accounting and Auditing Research Committee of The Canadian Institute of Chartered Accountants under which the income tax provision is based on the income reported in the accounts.

Undepreciated capital cost remaining to be carried forward and applied against future taxable income at December 31, 1971 is \$3,114,000.

The Company provides for deferred income taxes on timing differences between depreciation and capital cost allowances. If the tax allocation basis had been followed for all timing differences between taxable income and reported income, additional deferred income taxes of \$450,000 (\$260,000 in 1970) would have been provided and net income for the year would have been reduced accordingly. The accumulated income tax reductions relating to all timing differences in the current and prior years amount to approximately \$2,931,000 at December 31, 1971.

8. AMOUNTS PAID TO DIRECTORS AND SENIOR OFFICERS:

The aggregate direct remuneration paid or payable in 1971 to the directors and senior officers of the Company amounted to \$102,970 (\$117,106 in 1970). During the year there were a total of seven directors and four officers of whom two served in both capacities.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of North Canadian Oils Limited as of December 31, 1971 and the statements of income, retained earnings, capital redemption reserve fund and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company at December 31, 1971 and the results of its operations and the source and use of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
February 28, 1972

Peat, Marwick, Mitchell & Co.
Chartered Accountants

THE FIRST QUARTER CENTURY

North Canadian Oils Limited was incorporated in 1947 under the Companies Act of the Province of Alberta. The following are the highlights of 25 years activity in the field of natural resources.

- 1951** - Participated in drilling of discovery well in Armena Oil Field now part of Joarcam Field, the largest Viking Oil Field in the Province.
- 1952** - Listed for trading on the Toronto and American Stock Exchanges — one of the first Canadian oil companies to be listed on Amex.
- 1953** - Acquired all outstanding shares of North Western Pulp & Power Ltd. and Bryan Mountain Coal Co. Ltd. which gave North Canadian one of the largest pulp wood reservations in Canada and a major source of coal.
- 1954** - Concluded partnership agreement with St. Regis Paper Co. for the joint construction and ownership of a \$50,000,000 bleached sulphate pulp mill at Hinton, Alberta. It was the first pulp mill in Alberta and the first in North America to incorporate the Swedish developed continuous digestors which are now universally used.
The agreement further provided that North Canadian should have the contract to supply the mill with its entire fuel requirements for 15 years. The original intent was to supply coal from the Bryan Mountain coal mine at nearby Robb but it was subsequently decided to switch to natural gas. The fuel contract was amended accordingly.
- 1956** - North Canadian constructed a 136-mile 10" gas transmission line from Wabamun, Alberta to Hinton to serve the North Western Pulp and Power fuel contract. A 20-year gas purchase contract was entered into with Midwestern Industrial Gas Ltd. (later purchased by Canadian Industrial Gas and Oil Ltd.)
- 1961** - North Canadian acquired its first Medicine Hat gas properties in Alberta and Saskatchewan. The gas sales contract with North Western Pulp and Power was extended to 1982.
- 1964** - Commenced initial deliveries of gas to TransCanada PipeLines and Saskatchewan Power Corporation from Medicine Hat properties.
- 1966** - Renegotiated its gas sales contract with Saskatchewan Power Corporation. In connection with renegotiation, the Company purchased an additional 66,000 acres of proven gas properties from Saskatchewan Power Corporation. North Canadian thereafter became the largest individual gas producer in the Province of Saskatchewan.
- 1969** - Sold 50% interest in North Western Pulp & Power to St. Regis Paper Co. for \$15,000,000, a transaction which produced a tax-free profit of \$8.47 million.
- 1971** - Listed for trading on Pacific Coast Stock Exchange. Completed 25th year of operation with highest revenue, earnings and production in the Company's history.

CAPITAL

7,500,000 Common Shares having a Par Value of Twenty-five Cents per Share

Issued 5,602,497 Shares

70,000 Preferred Shares having a Par Value of \$50.00 per Share

Issued 44,352 Shares

COMMON SHARE REGISTRARS

GUARANTY TRUST COMPANY

OF CANADA Calgary, Alberta

THE BANK OF NOVA SCOTIA TRUST

COMPANY OF NEW YORK New York City, U.S.A.

THE BANK OF CALIFORNIA,

N.A. Los Angeles, California, U.S.A.

COMMON SHARE TRANSFER AGENTS

GUARANTY TRUST COMPANY

OF CANADA Calgary and Toronto

THE BANK OF NOVA SCOTIA TRUST

COMPANY OF NEW YORK New York City, U.S.A.

THE BANK OF CALIFORNIA,

N.A. Los Angeles, California, U.S.A.

PREFERRED SHARE REGISTRAR AND TRANSFER AGENTS

GUARANTY TRUST COMPANY

OF CANADA Calgary and Toronto

COMMON SHARES LISTED

AMERICAN STOCK EXCHANGE

PACIFIC COAST STOCK EXCHANGE

TORONTO STOCK EXCHANGE

PREFERRED SHARES LISTED

TORONTO STOCK EXCHANGE Toronto

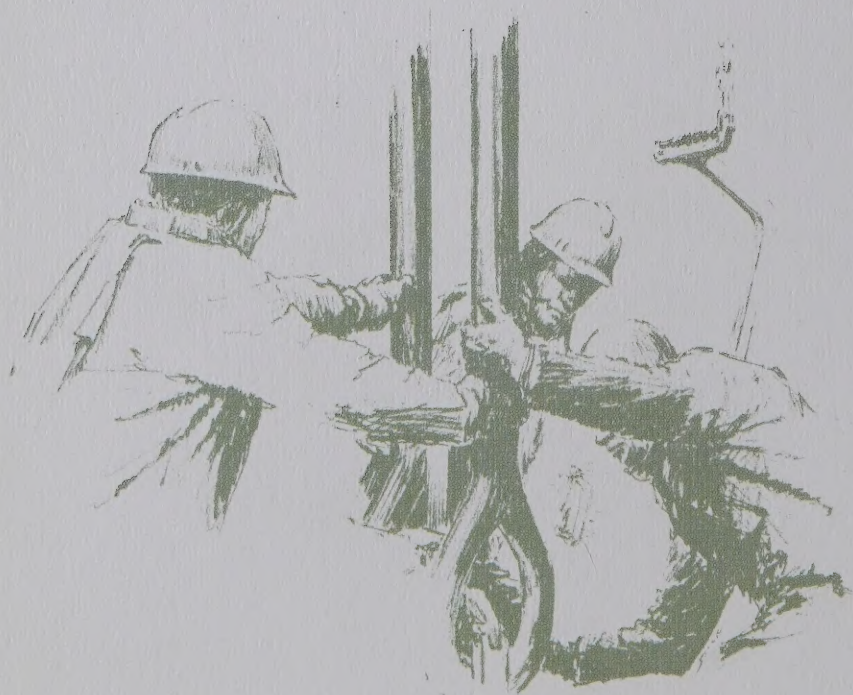
AUDITORS

PEAT, MARWICK, MITCHELL & CO. Calgary, Alberta

HEAD OFFICE

640 SEVENTH AVENUE SOUTHWEST Calgary 2, Alberta

The trading in the common shares of North Canadian is exempt from the United States interest equalization tax applicable to the purchase of foreign securities by United States citizens.



NORTH CANADIAN OILS LIMITED 640 Seventh Avenue Southwest, Calgary 2, Canada